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NORTHWEST DIVISION

OFFICE OF REPORTS AND ESTIMATES

CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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CONTENTS



SCANDINAVIA GENERAL.....	8
NORWAY.....	9
ICELAND.....	10

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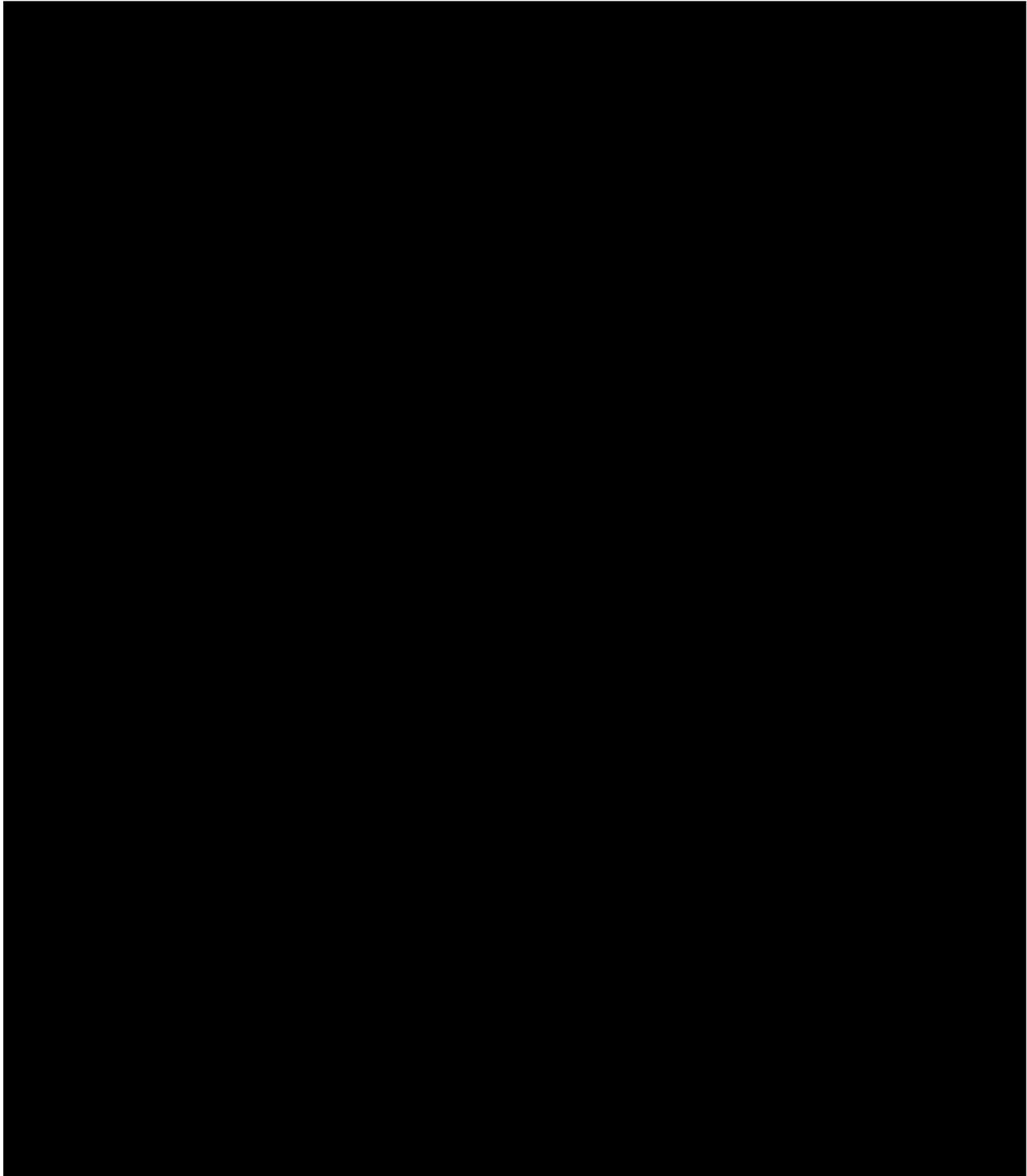
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\* See ND Weekly No 37, 24 October.

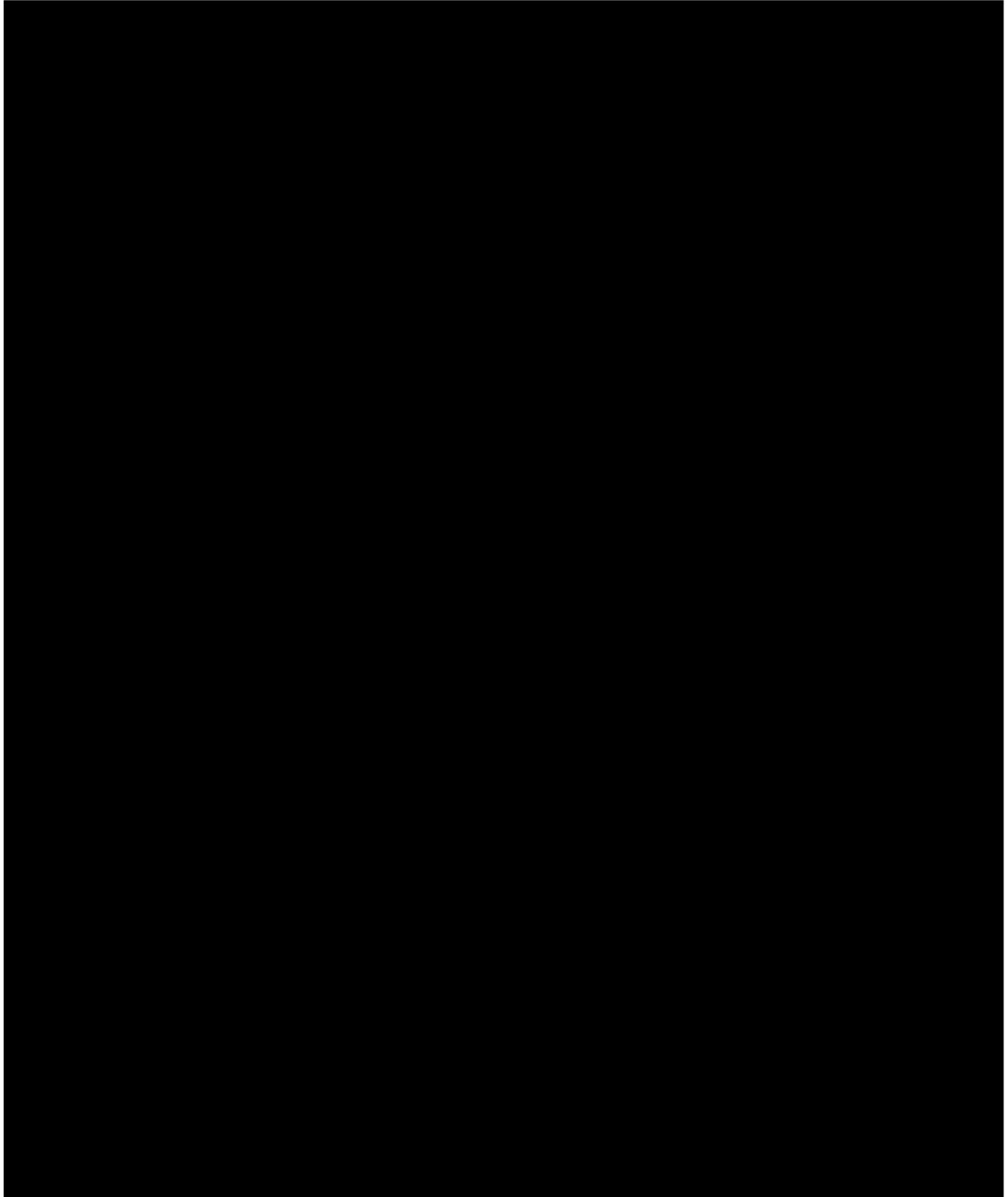
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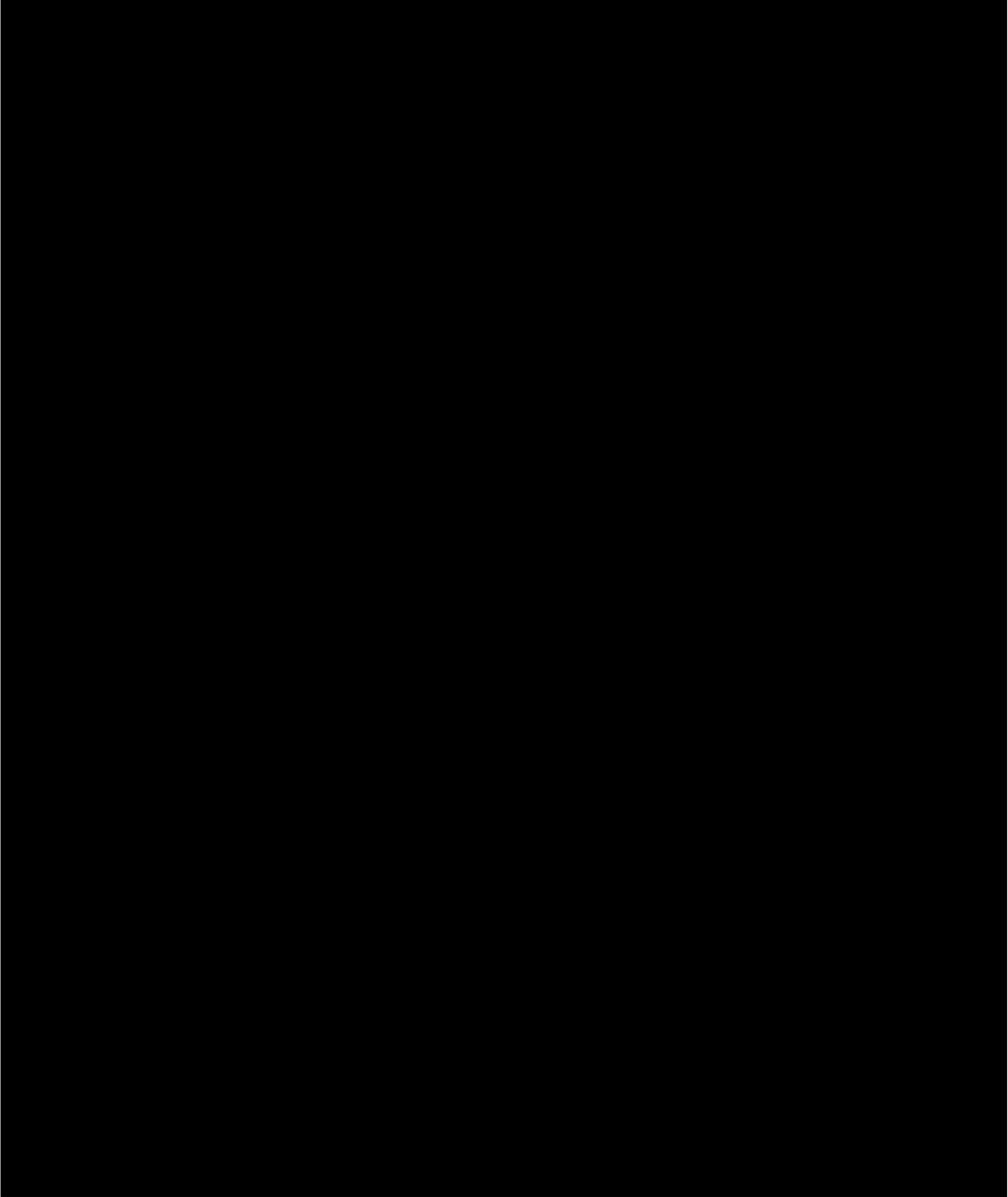


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gives half hearted approval of Government's

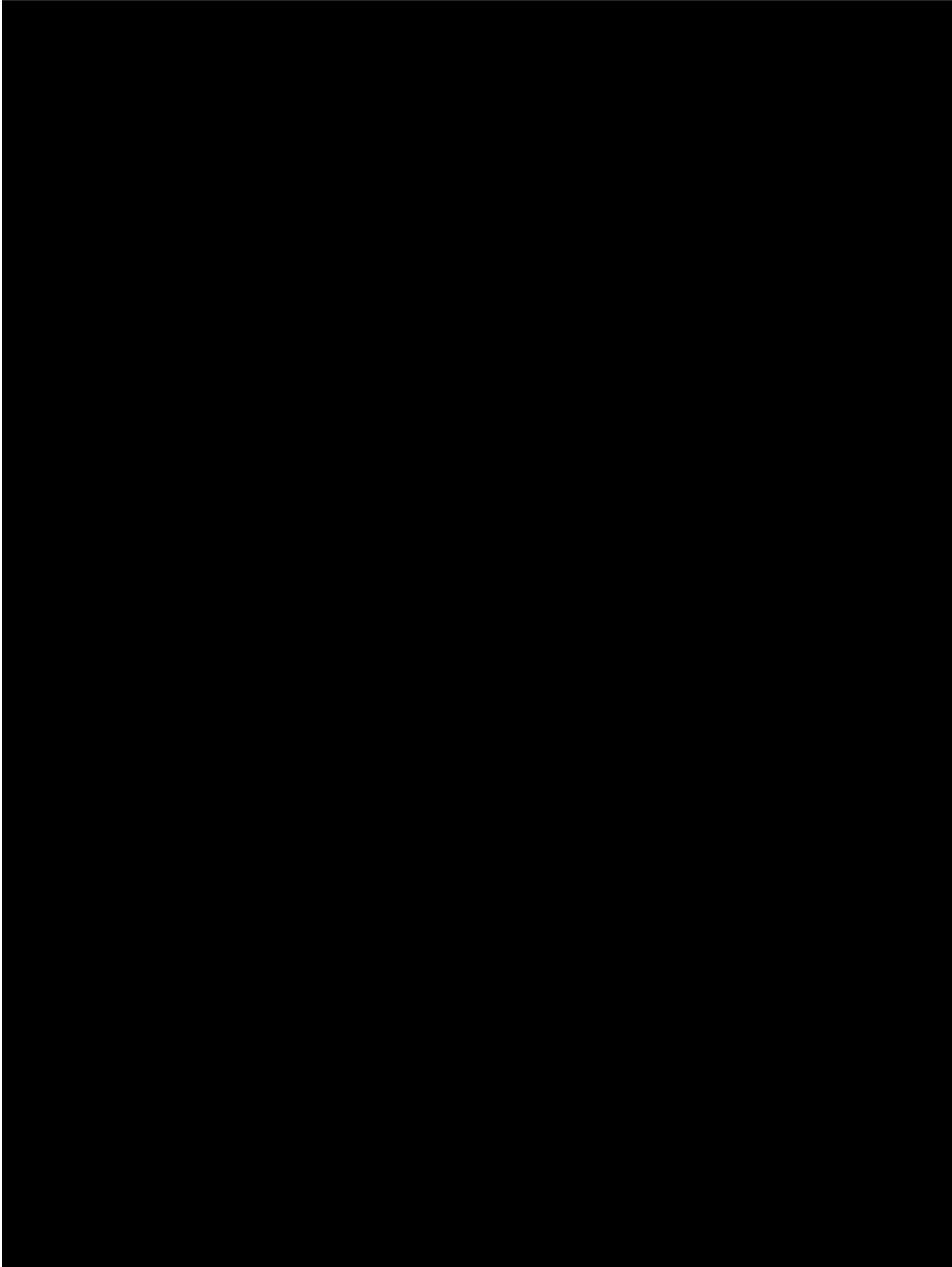


\* See NB Weekly No 81, 12 September

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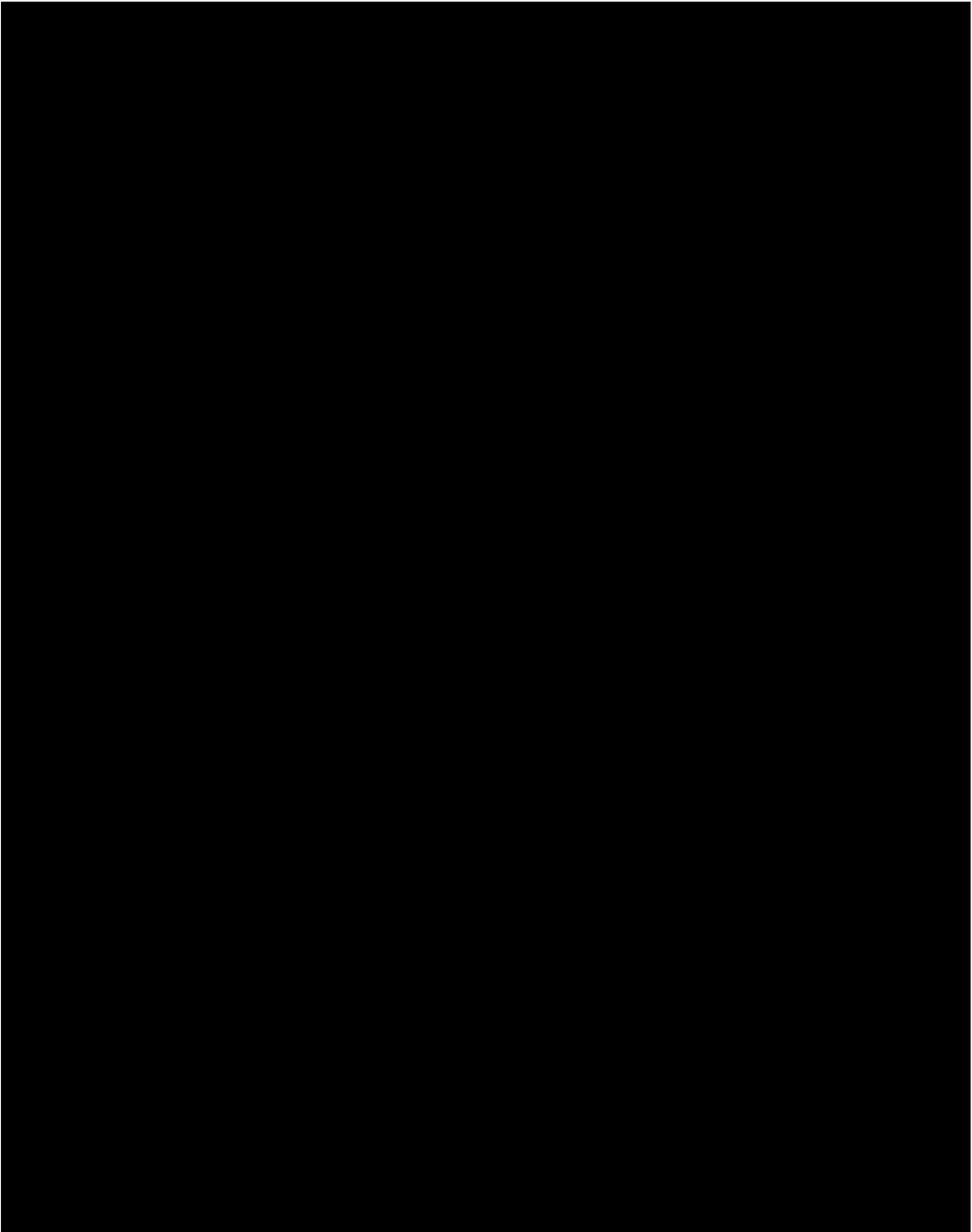


\* See NB Weekly No 45, 21 December

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**CONFIDENTIAL**COMMONWEALTH AND EMPIREUnion of South AfricaB. Government's election reverses reflect discontent over economic conditions

The United Party's victories in the municipal elections in Johannesburg and Pretoria on 26 October mark the dominant Nationalists' first important reverses since their advent to national power in May 1948, and point up growing dissatisfaction with the Government's inability to restore a prosperous national economy. The Parliamentary Opposition parties took every seat on the Johannesburg City Council and gained control of the Pretoria Council for the first time in many years. As the Union's chief industrial city and its administrative capital, these two areas are more than normally sensitive in their reactions to national economic trends. The Union Government, because of failure so far to attract sufficient foreign capital or to realize any quick benefit from devaluation, has resorted to restriction of consumer imports and to deficit spending on its own capital projects while restricting credit and raising interest rates in private commerce. An additional cause of the Government's electoral reverses, particularly in Pretoria, is the greater role favoritism has come to play in the bureaucracy of government. Recently, for example, the cabinet replaced the top career civil servant in the Native Affairs Department with its own choice, a university professor favoring implementation of extreme apartheid (separation of races by areas).

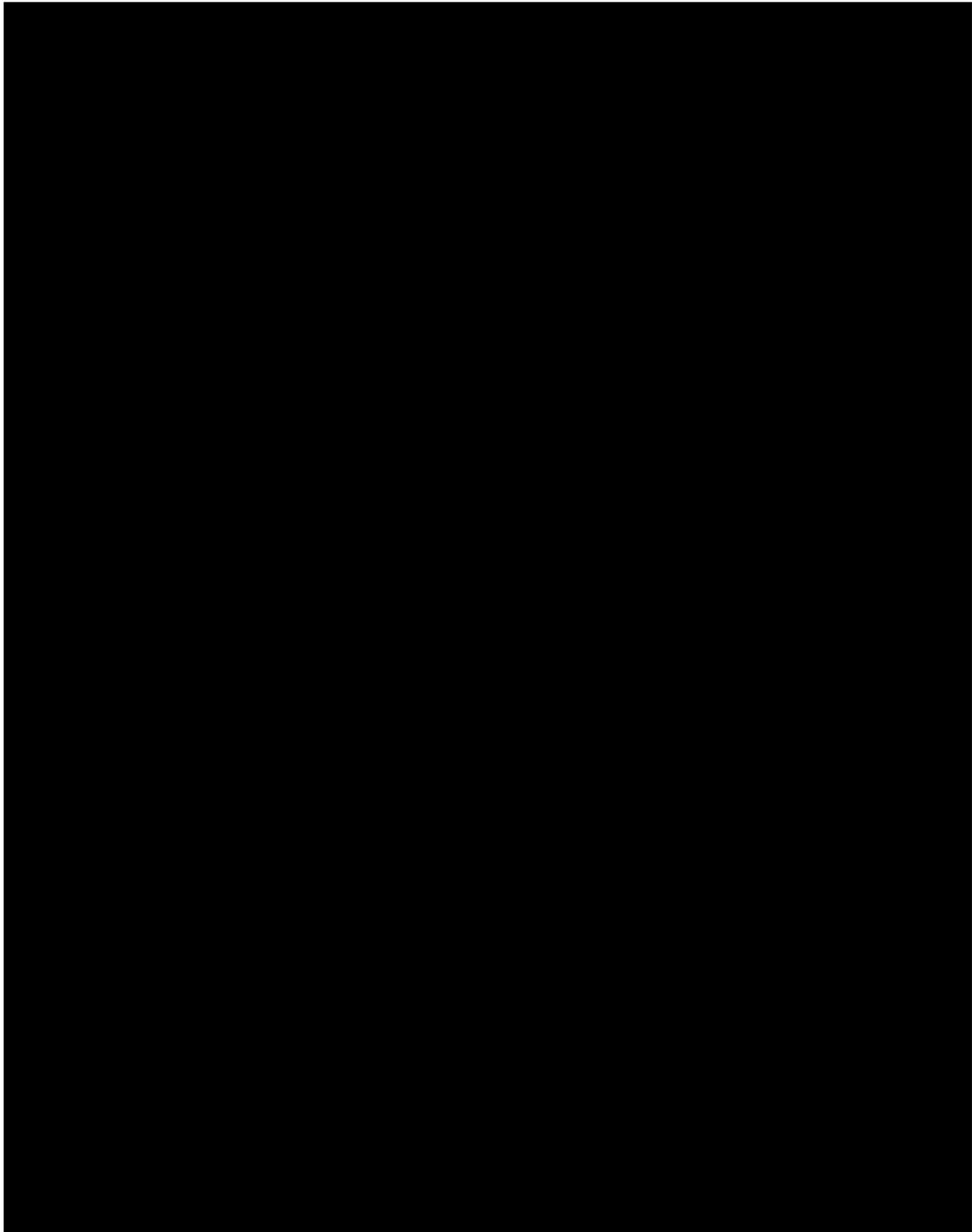
Some indication of a new political trend was given in the 17 August parliamentary election, held in Mayfair (metropolitan Johannesburg), when the United Party reduced the Government's winning margin from the 338-vote majority of the 1948 general election to only 10. The present checking of the Nationalist Party tide has focused attention on the important South-West African elections slated for early 1950, when Opposition victories in the six new constituencies could reduce the Government's parliamentary majority to one vote. General Smuts has been encouraged by the UP's new victories to exploit the situation by embarking on the most strenuous speaking tour of his career.

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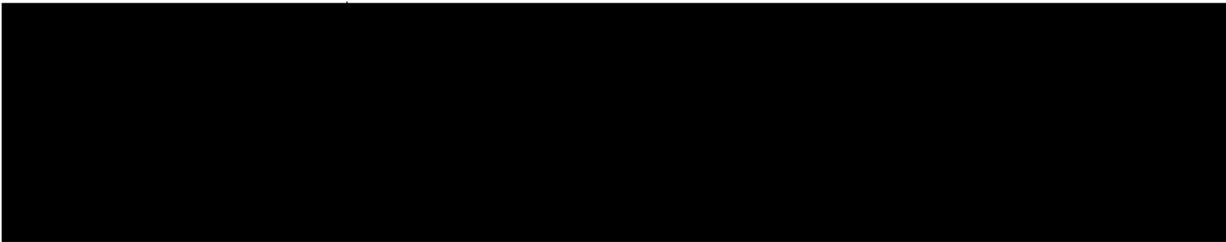
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\* See NB Weekly No 50, 7 February

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SCANDINAVIAN BRANCHGENERAL1. ECA encouragement may speed Scandinavian Customs Union

Despite the formation in early 1948 of a Joint Nordic Committee for Economic Cooperation to study the formation of a Scandinavian Customs Union little progress has been made toward even the first mission of the committee--plans for the establishment of a common customs tariff. Scandinavian ministers met in October to consider the progress made by the committee and, finding little, issued instructions to prepare a definite tariff proposal by 1 April 1950. ECA encouragement of trade liberalization has given impetus to the exploration of customs union formation, and the Scandinavian countries thereby hope to qualify for ECA reserve fund aid to cushion the effects of lowered restrictions.

While formation of a customs union is still remote, concrete estimates of requirements and careful analysis of areas of conflict are being submitted by all three countries, and with the incentive of ECA aid, a more rapid timetable for the removal of quantitative trade restrictions among the Scandinavian countries will be put into operation.

The obstacles which so far have hampered development of a customs union still obtain, however. While Denmark has been the most vigorous proponent, Norway has viewed the proposals with great skepticism and little enthusiasm. Norway doubts that a customs union is feasible and takes the position that Scandinavian collaboration can only be a part of larger European collaboration with US support. Norwegian officials emphasize Norway's unfavorable competitive position and have demanded guarantees against competition from Danish agriculture and from certain Swedish and Danish consumer goods industries. Both Norway and Sweden are hesitant for strategic reasons to become dependent upon Danish agricultural production

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-9-

which could easily be unavailable in time of war. Since the value of Norway's imports normally exceeds the value of its exports, it fears that the removal of trade restrictions and reduction of tariffs will increase this imbalance. Because Denmark and Sweden are unwilling to extend the credits necessary to cover Norway's deficits or reconstruct its consumer goods industry the Scandinavian ministers at the recent meeting decided to seek ECA aid in developing cooperation.

In addition to initiating plans for the removal of tariffs, one of the first steps, it was agreed, must be to coordinate investments to provide efficient economic utilization of productivity in the three countries. The most logical fields would be Norwegian-Swedish cooperation in iron production and cooperation for the joint use of Norwegian hydro-electric power, with transmission of Norwegian electric power through Sweden to Denmark most likely of early realization. A final plan is to be discussed this month and will be submitted to ECA with a request for a grant from the reserve fund to expand Norway's generating capacity and the transmission facilities. Present plans call for operation early in 1952.

NORWAY

2. Schism in Communist Party leadership culminates in expulsion of rebels

The expulsion last week of former party secretary Peder Furubotn and several of his followers allegedly but erroneously for Titoist activity has in effect resolved the schism which has existed within the Norwegian Communist Party (NKP) leadership since late 1948. It is unlikely that the expelled leaders will attempt to form a rival Communist party, realizing that they probably could not proselyte sufficient rank and file support and, more importantly, that Moscow's blessing would remain with the established party.

Despite the accusation of Titoist activities as the reason for expulsion, the schism was not ideological, but the product of a struggle for party control by two factions, represented by party chairman Emil Løvlien and by Furubotn. There was little or no difference between the ideological positions of the two groups--neither group questioned subservience of the NKP to Soviet/Cominform domination--but there was sharp conflict as to method and degree. Løvlien

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-10-

advocated and pursued a moderate course designed to mollify the MKP's more "Norwegian" element and, in an effort to unite the party's various splinter groups for the October 1949 election campaign, avoided controversial statements of policy. Furubotn, however, opposed Løvlien's conciliatory caution as pusillanimity, and campaigned openly within the party for immediate and thorough coordination of MKP policy with that of the USSR and for concentration of party effort on the creation of a strong underground group rather than on attempts to achieve parliamentary success.

Majority rank and file support was with the Løvlien group, and in February 1949 at the Seventh Party Congress certain of Furubotn's supporters--including several of Norway's best-known Communists--failed to be re-elected to the National Committee, and Furubotn's request for formal release from all party duties was readily accepted. Apparently unchastened by the Congress's censure, however, he continued his agitation. Unwilling to risk further weakening of the party's election prospects, the Løvlien group postponed its rebuttal. When the election resulted in the loss of all MKP parliamentary representation, conciliation as a means of obtaining party unity became unnecessary, and Furubotn and the leaders who had supported him were summarily expelled.

The expulsion, coupled with the false accusation of Titoist activities as the reason for expulsion, serves many useful purposes: (a) expulsion being difficult if not impossible to appeal, it urges the party of its chief dissenters and leaves the position of the Løvlien group not seriously threatened; (b) it stigmatizes Furubotn in the eyes of the uninitiated rank and file and renders suspect any further agitation on his part; (c) it provides a scapegoat for the election defeat, and (d) it forestalls and neutralizes any charges of Titoism which, although they would also be erroneous, might be directed at the Løvlien group with greater credibility.

### ICELAND

#### 3. Election produces minor changes in party representation

Attention in Iceland is now being directed toward the formation of a new Government. Few clues to its composition

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-11-

are provided by the recent elections which produced only minor changes in party representation in the Althing. The Conservatives who had 19 seats showed no change in representation; the Progressives gained three for a total of 17; the Social Democrats lost two of their former nine, and the Communists lost one of their former ten.

Indications of Conservative unwillingness to participate in the new Government, if true, further complicate the issue by leaving the two other non-Communist parties with only 24 seats--three short of an absolute majority. A coalition can be avoided only by a non-partisan cabinet, but it is probable that the President will first entrust the responsibility for forming a cabinet to one of the party leaders. Based on the President's past actions and statements he will seek a cabinet without Communist participation and will deviate from that policy only as a last resort.

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